

## IN THIS ISSUE

Editorial .....	3
Team News .....	4
15% GST.....	5
Accounting Systems & Reporting Issues .....	6
i Things .....	7
Continuous Supplies & Perpetual Invoices.....	8
Layby and Hire Purchase Sales.....	9
Supplies between Associated Persons.....	9
Change of Use Adjustments.....	10
One Rule in Heaven.....	11
Contracts That Span 01 October 2010.....	12
Marketing Strategies .....	13
Getting Things Wrong.....	14
Specific Issues .....	14
Creation .....	15
Accounting Software .....	16
Rude Bird .....	17
Tail Ender.....	18

## EDITORIAL - SPECIAL GST EDITION

With 01 October looming we should be thinking about the increase in the GST rate and how it is going to impact on our businesses.

We therefore have decided to make this newsletter a special GST edition and have included a practical GST checklist and templates to assist you with the transitional GST period.

If you would like to discuss the impact of the GST changes on your business please contact us. We are happy to assist you transition your business smoothly over the 01 October period.

If you are using an accounting software package then please refer to the *Accounting Software* section on page 16.

We are keen to assist so that your systems do not let you down at the last minute. If you would like us to assist we are happy to visit your business or alternatively if you would prefer to attend a workshop at our offices then please contact us so that we can arrange a session at a convenient time for you.

**Anne Maret**  
Editor



## TAIL ENDER



Two women were sitting next to each other at a bar. After a while, one looks at the other and says, 'I can't help but think, from listening to you, that you're from Ireland.'

The other woman responds proudly, 'Yes, I sure am!'

The first one says, "So am I! And whereabouts in Ireland are ya from?"

The other woman answers, "I'm from Dublin, I am."

The first one responds, "So, am I!! And what street did you live on in Dublin?"

The other woman says, "A lovely little area. It was in the west end. I lived on Warbury Street in the old central part of town."

The first one says, "Faith, and it's a small world. So did I! So did I! And what school did ya go to?"

The other woman answers, "Well now, I went to Holy Heart of Mary, of course."

The first one gets really excited and says, "And so did I! Tell me, what year did you graduate?"

The other woman answers, "Well, now, let's see. I graduated in 1964."

The first woman exclaims, "The Good Lord must be smiling down upon us! I can hardly believe our good luck at winding up in the same pub tonight! Can you believe it? I graduated from Holy Heart of Mary in 1964 me self!"

About this time, Michael walks into the bar, sits down, and orders a beer.

Brian, the bartender, walks over to Michael shaking his head and mutters, "It's going to be a long night tonight."

Michael asks, "Why do you say that, Brian?"

Brian answers, "The Murphy twins are drunk again."

## RUDE BIRD

A young man named John received a parrot as a gift. The parrot had a bad attitude and an even worse vocabulary. Every word out of the bird's mouth was rude, obnoxious and laced with profanity.

John tried and tried to change the bird's attitude by consistently saying only polite words, playing soft music and anything else he could think of to 'clean up' the bird's vocabulary.

Finally, John was fed up and he yelled at the parrot. The parrot yelled back. John shook the parrot and the parrot got angrier and even ruder. John, in desperation, threw up his hands, grabbed the bird and put him in the freezer.

For a few minutes the parrot squawked and kicked and screamed. Then suddenly there was total quiet. Not a peep was heard for over a minute.

Fearing that he'd hurt the parrot, John quickly opened the door to the freezer. The parrot calmly stepped out onto John's outstretched arms and said "I believe I may have offended you with my rude language and actions. I'm sincerely remorseful for my inappropriate transgressions and I fully intend to do everything I can to correct my rude and unforgivable behaviour."

John was stunned at the change in the bird's attitude. As he was about to ask the parrot what had made such a dramatic change in his behaviour, the bird spoke-up, very softly, "May I ask what the turkey did?"



## TEAM NEWS

Elliot Louise O'Neill was welcomed into our world in July.

Mother, baby and father all doing well, just a little sleep deprived.

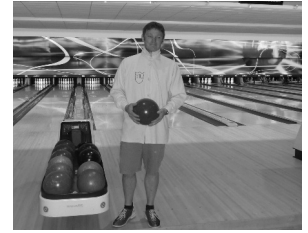
Congratulations Amie & Steve.

## SPRING EDITION QUOTE

"Success is getting what you want.

Happiness is wanting what you get."

*Dave Gardner*



## 15% GST

### ***When does the new rate start?***

The 15% GST rate will apply to supplies made on or after 01 October 2010. All businesses must apply the new rate to supplies made on or after **01 October 2010**.

### ***How is the new rate of GST calculated?***

The new tax fraction will change from 1/9 to 3/23 – which will make calculating the GST component of prices a lot more complicated than the current method.

#### **Example:**

GST-inclusive price of \$115 x 3/23 = \$15 GST (Already included in price)

The GST component of a **GST-exclusive** price will need to be calculated multiplying the GST-exclusive price by 15% to calculate the GST component.

#### **Example:**

GST-exclusive price of \$100 x 0.15 = \$15 GST (To be added to \$100 price)

### ***Which rate will apply?***

The GST rate that is issued will depend on the “time of supply”. Generally, this is the earlier of the time an invoice is issued, or a payment is made in respect of a supply of goods or services.

If the time of supply occurs **before** 01 October 2010, the applicable rate is 12.5% (even if delivery of the goods or performance of the services occurs after 01 October 2010).

If the time of supply occurs **after** 01 October 2010, the applicable rate is 15%.

Special “time of supply” rules apply for certain continuous supplies and supplies between associated persons.

### ***Filing returns***

If a GST return straddles 01 October 2010, two GST returns will have to be filed:

- a) One covering the period ending 30 September 2010; and
- b) One covering the period commencing 01 October 2010.

## ACCOUNTING SOFTWARE



### **MYOB Cashbook**

If you are using MYOB Cashbook to calculate your GST a software update will be required so that GST is calculated at the correct rate after 01 October 2010.

The upgrade can be downloaded from the MYOB website [www.myob.co.nz](http://www.myob.co.nz) from early September 2010. The expected cost of this upgrade is \$99 plus GST.

If you would like to discuss this further or would like help with the upgrade process please contact us.

### **CashManager Rural**

Recently CashManager have changed their pricing structure. If you use CashManager Rural you will need to make this change as the old programme is unable to handle the new 15% GST rate.

In the past you have bought and owned the programme. From 01 October 2010 you will lease the software at a cost of \$400 per year for existing users, or \$500 per year for new users.

CashManager will provide free updates and telephone support with this lease arrangement. Please contact us if you have any questions.

### **MYOB Accountright** (previously MYOB Accounting/Premier)

If the software you are using has been registered after 15 July 2010 then an upgrade can be done over the internet at no cost. For all other versions an upgrade to the latest version will be required. Please contact us to discuss this further to ascertain the upgrade cost.

### **Other Accounting Software**

Please contact us if you are unsure if your existing accounting software will handle the change in GST rate on 01 October 2010.

recovery occurs. Therefore, GST will have to be returned at the higher 15% rate, reducing the net recovery accordingly.

### **Entertainment expenditure**

Each year businesses are required to make a GST adjustment for entertainment expenditure that is deemed to be non-deductible for income tax purposes. For GST purposes, the non-deductible entertainment is deemed to be supplied on the date your income tax return is filed, or the date your return is due (whichever is the earlier). This is irrespective of when during the year the entertainment actually took place.

For the 2010 – 2011 income tax year, GST registered taxpayers have the option of using the 12.5% rate for non-deductible entertainment expenditure incurred before 01 October, and 15% for later expenditure. Or, they can simply use the 15% rate for the entire entertainment adjustment.

### **Fringe benefit tax**

For GST purposes, fringe benefits are deemed to be supplied at the time the fringe benefit is provided or granted. Accordingly, fringe benefits provided or granted before 01 October 2010 will attract 12.5% GST. Fringe benefits provided or granted on or after 01 October 2010 will attract 15% GST.

## CREATION

A little girl asked her mother, "How did the human race appear?"

The mother answered, "God made Adam and Eve and they had children, and so was all mankind made."

Two days later the girl asked her father the same question.

The father answered, "Many years ago there were monkeys from which the human race evolved."

The confused girl returned to her mother and said, "Mum, how is it possible that you told me the human race was created by God, and Dad said they developed from monkeys?"

The mother answered, "Well, dear, it is very simple. I told you about my side of the family and your father told you about his."

## ACCOUNTING SYSTEMS & REPORTING ISSUES

Now is the time to review your computer systems to ensure that it can cope with the increase in GST. Billing systems, purchasing systems, expense systems and accounting systems will all be affected by the GST increase.

- Check if your accounting systems currently have the ability to cope with two different GST rates at the same time. A new 15% GST rate will need to be created within your accounting system in addition to retaining the 12.5% rate.
- Does your accounting software need to be upgraded or replaced to incorporate the new rate of GST? The older and more customised your systems are, the more likely it is that substantial changes will be required.
- Can your Accounts Receivable systems raise tax invoices at both GST rates?
- Can your Accounts Payable systems process invoices received at both GST rates?
- Can your Accounts Receivable systems generate credit / debit notes at both rates of GST i.e. at 12.5% and 15%? Credit / debit notes need to use the same GST rate as used on the original tax invoice.
- Ensure that your accounting software can correctly process any bad debt write off at the rate used for the original sale i.e. 12.5% for bad debts on sales before 01 October 2010 and 15% for sales after 01 October 2010.
- Ensure that your reconciliation spreadsheets and workpapers are updated to reflect the 15% rate.
- Is the 12.5% rate hardcoded anywhere in your system, including any custom developed reports? If so, the rate will have to be replaced with the 15% rate or the hardcoding needs to be overridden to allow the use of dual rates.



- Ensure all staff are given appropriate training on the GST rate increase so they understand how the rise in GST will impact their responsibilities.
- Test any changes to the reporting systems before they are implemented.
- Retailers should ensure that their cash registers are adjusted so that receipts disclose the correct rate of GST after 01 October 2010.
- Remember that if a GST return period straddles 01 October 2010, two GST returns will have to be filled:
  - a) One covering the period ending 30 September 2010; and
  - b) One covering the period commencing 01 October 2010.

## iTHINGS

I got my son an iPhone for his birthday the other week and recently got my daughter an iPod for hers.

I was dead chuffed when the family clubbed together and bought me an iPad for Father's day.

I bought my wife an iRon for her birthday. It was around then the fight started...



## GETTING THINGS WRONG

### *What happens if I charge my customers the wrong amount of GST on an invoice?*

You will have to discuss the GST shortfall to the IRD, make payment accordingly and update your internal records.

Although the IRD has introduced provisions to grant relief from late payment penalties, late filing penalties and use of money interest on GST returns from 01 October 2010 to 31 December 2010, they have not granted relief from shortfall penalties if the wrong amount of GST is paid.

### *What happens if I get a tax invoice with the wrong GST rate or amount?*

If the details on a tax invoice are not correct, it is deemed to be "invalid". If a taxpayer does not hold a valid tax invoice, technically no GST can be claimed. You should therefore ask your supplier to provide you with a correct tax invoice.

## SPECIFIC ISSUES

### **Payments basis adjustments**

Amounts that payments basis or hybrid taxpayers pay or receive after 01 October 2010 will be accounted for at the new 15% rate. To accommodate the rate increase, an adjustment will have to be made in the GST return covering the September 2010 period. The adjustment takes the difference between a registered person's debtors and creditors immediately before the rate change, and multiplies it by the difference between the 12.5% and 15% rates. If the result is a positive amount (i.e. creditors exceed debtors on hand) it is treated as an output tax adjustment in the return period. If the result is a negative amount (i.e. debtors exceed creditors) it is treated as an input tax adjustment in the return period.

### **Secondhand goods**

The timing of input tax credits on secondhand goods acquired needs to be carefully considered. An adjustment similar to the one for payments basis or hybrid taxpayers can be made where full payment has not been made for the secondhand goods prior to the GST rate change.

### **Bad debts recovered**

Where a previously written off bad debt is recovered after the change in GST rate, this is deemed to be a supply in the period within which the

## MARKETING STRATEGIES

### **Marketing and pricing**

With the upcoming increase in the GST rate, now is an excellent time to review your marketing and pricing strategies.

Consider whether you can afford to absorb the increase of GST within your business, or whether you will pass the cost on to your customers.

Are your customers GST-registered businesses or end consumers? Where businesses primarily contract with other GST-registered businesses, it is expected that the increased GST rate will be passed on to the business customers.

However, for businesses selling directly to end consumers on a GST-inclusive basis, it is likely that many businesses will absorb the extra GST cost in the short term rather than increase their prices overnight.

Do your contracts allow you to legally increase your prices charged to your customers?

Tendered contracts need to be reviewed carefully. If you are tendering for a contract over the next few months you will need to take into account the increase in GST in your

pricing. Advise any potential client that you will be accounting for the increase in GST in any tender documents you may be submitting.

Where possible, ensure all pricing is expressed as "plus GST". If a contract is silent on GST, or the price is expressed as "inclusive of GST", the GST legislation only gives a limited right to gross up the price. Suppliers can increase a "GST inclusive" price within 3 months of the rate increase, unless the contract expressly precludes a gross up.

Ensure that all your pricing on packaging, advertising materials, websites and brochures, as well as pricing on the shelves, is updated to reflect the increase in GST.

On high value contracts, consider encouraging customers to enter into the contracts before 01 October 2010 so they are only charged 12.5% GST instead of 15%.

Be prepared for a surge in consumer demand in the lead-up to 01 October 2010, especially if your business sells big ticket items such as whiteware and motor vehicles.



## CONTINUOUS SUPPLIES & PERPETUAL INVOICES

### **Continuous supplies of goods and services**

If you supply goods and services on a continuous basis, and receive payments on a regular or periodic basis, the time of supply will be triggered throughout the period, rather than all at the start.

This means a contract signed in January 2010, which provides for 12 monthly payments, will be subject to 15% GST after 01 October 2010 – even though the parties expect GST at 12.5% for the entire period of the contract.

You therefore need to carefully consider:

- a) The ability to legally change the price charged to customers for the periods after 01 October 2010 i.e. can you legally pass on the extra GST cost to your customers?
- b) The practical and commercial issues of trying to collect the higher amount from your customers, i.e. is it cheaper for your business to simply wear the extra GST cost



rather than attempt to recover it from your customers (and potentially risk good customer relations in the process)?

- c) The ability of your accounting system to handle dual GST rates for a single contract. (See *Accounting Systems* on page 8 for further information).

### **Perpetual invoices**

It is common practice for perpetual invoices to be issued in the case of continuous supplies, such as leasing commercial buildings. Suppliers typically issue a tax invoice that covers the entire year or longer, showing the due dates for payments.

You must issue replacement invoices for payments due on or after 01 October 2010 to reflect the higher 15% GST rate.

## LAYBY AND HIRE PURCHASE SALES

### *Layby sales*

Goods purchased on layby accounts will attract the higher 15% rate if the final payment is received on or after 01 October 2010. This is because for GST purposes, the time of supply for layby sales occurs at the time ownership of the goods transfers to the buyer. This ordinarily occurs after the final payment is made for the goods.

### *Hire purchase sales*

Goods purchased on hire purchase accounts will attract the higher 15% rate if the contract is entered into after 01 October 2010 or the lower 12.5% rate if the contract is entered into before 01 October 2010.



## SUPPLIES BETWEEN ASSOCIATED PERSONS

The time of supply for transactions involving associated persons is the earlier of an invoice being issued, payment being received or when the goods or services themselves are made available to the recipient or performed.

For example:

Company X and Company Y are associated. X provides management service to Y throughout the year and issues an invoice for those services in December 2010. For GST purposes, the time of supply is triggered when the management services are provided by X. Therefore X must account for GST at the rate of 15% on management services provided on or after 01 October 2010, and at 12.5% on management service provided on or before 30 September 2010.

Care must therefore be taken to ensure that GST is accounted for correctly on transactions involving associated persons.

## CONTRACTS THAT SPAN 01 OCTOBER 2010

### *What happens if I have contracts that span 01 October 2010?*

The GST Act contains provisions which deal with the impact of a GST rate increase on contracts that have already been entered into. These provisions effectively modify existing contracts to increase the price in line with the increased GST, unless the contract expressly contemplates a change in the GST rate.

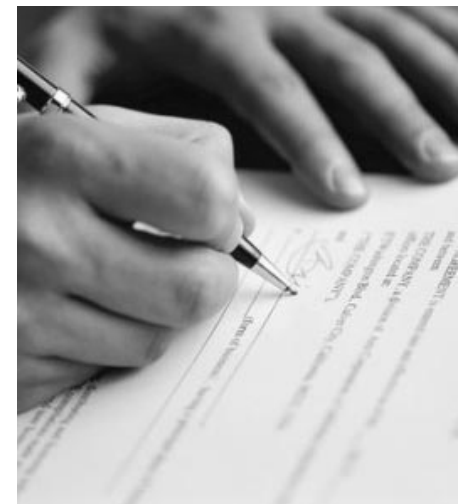
Where the contract prices are **GST-exclusive**, the GST Act provides that the price will automatically increase to the new rate, unless the contract explicitly provides otherwise. We therefore recommend that prices are quoted "plus GST" wherever possible.

Where contract prices are **GST-inclusive**, suppliers are able to gross up the GST inclusive prices, unless the contract specifically precludes a gross up. However, this only applies if the contract is entered into before the expiry of 3 months from 01 October 2010 i.e. before 01 January 2011 (section 78(2) of the GST Act).

For clarity, **purchasers** therefore need to ensure that high value contracts, where the time of supply is expected to be triggered after 01 October 2010, either:

- a) Include a clause that specifically excludes the application of section 78(2) of the GST Act; or
- b) State that they are GST-exclusive; or
- c) State that GST is levied at the specified rate i.e. 15%

**Suppliers** that make a mistake with the GST-inclusive price of contracts entered into between 01 October and 31 December 2010 (where the time of supply is triggered after 01 October 2010) are able to gross up the value of the contracts for the increased GST. This is on the proviso, however, that the contract does not specifically disallow it.



## ONE RULE IN HEAVEN

Three women die together in an accident and go to heaven.

When they get there, St. Peter says, "We only have one rule here in heaven: Don't step on the ducks!"

So they enter heaven, and sure enough, there are ducks all over the place. It is almost impossible not to step on a duck, and although they try their best to avoid them, the first woman accidentally steps on one.

Along comes St. Peter with the ugliest man she ever saw. St. Peter chains them together and says, "Your punishment for stepping on a duck is to spend eternity chained to this ugly man!"

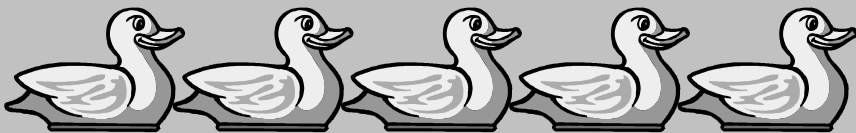
The next day, the second woman steps accidentally on a duck and along comes St. Peter, who doesn't miss a thing. With him is another extremely ugly man. He chains them together with the same admonishment as for the first woman.

The third woman has observed all this and, not wanting to be chained for all eternity to an ugly man, is very, VERY careful where she steps. She manages to go months without stepping on any ducks, but one day St. Peter comes up to her with the most handsome man she has ever laid eyes on.

St. Peter chains them together without saying a word.

The happy woman says, "I wonder what I did to deserve being chained to you for all of eternity?"

The guy says, "I don't know about you, but I stepped on a duck."



## CHANGE OF USE ADJUSTMENTS

Goods and services intended originally for business purposes may be used for making non-taxable supplies (e.g. exempt or private purposes). Conversely goods and services intended originally for exempt or private purposes may be used for making taxable supplies.

For GST purposes a supply is deemed to occur when there is a change of use and an output tax or input tax adjustment must be made accordingly.

The GST legislation has been amended to allow a registered person

to identify items that changed to a business use before 01 October 2010 and to apply a rate of 12.5% to **one-off** input tax adjustments even if the adjustment is made after 01 October 2010.

Similarly, when output tax is required to be paid as a result of the change of use, the legislation gives registered persons the option of identifying items that changed to a private use before 01 October 2010 and applying the rate of 12.5% to **one-off** output tax adjustments, even if the adjustment is made after 01 October 2010.

However, for **period by period** adjustments, the rate for post 01 October 2010 adjustments will always be 15%.

During a visit to my doctor, I asked him, "How do you determine whether or not an older person should be put in an old age home?"

"Well," he said, "we fill up a bathtub, then we offer a teaspoon, a teacup and a bucket to the person to empty the bathtub."

"Oh, I understand," I said. "A normal person would use the bucket because it is bigger than the spoon or the teacup."

"No" he said. "A normal person would pull the plug. Do you want a bed near the window?"

